

Some Evidence on the Importance of Sticky Prices

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Overview

Prices are not as sticky as previously thought

BLS Data (Unpublished)

- 350 Entry Level Items (ELIs)
 - Consumer Goods and Services that make up 70% of expenditures
- Average length of time between price changes: 4.3 months
 - With temporary sales factored out, price changes about every 5.5 months

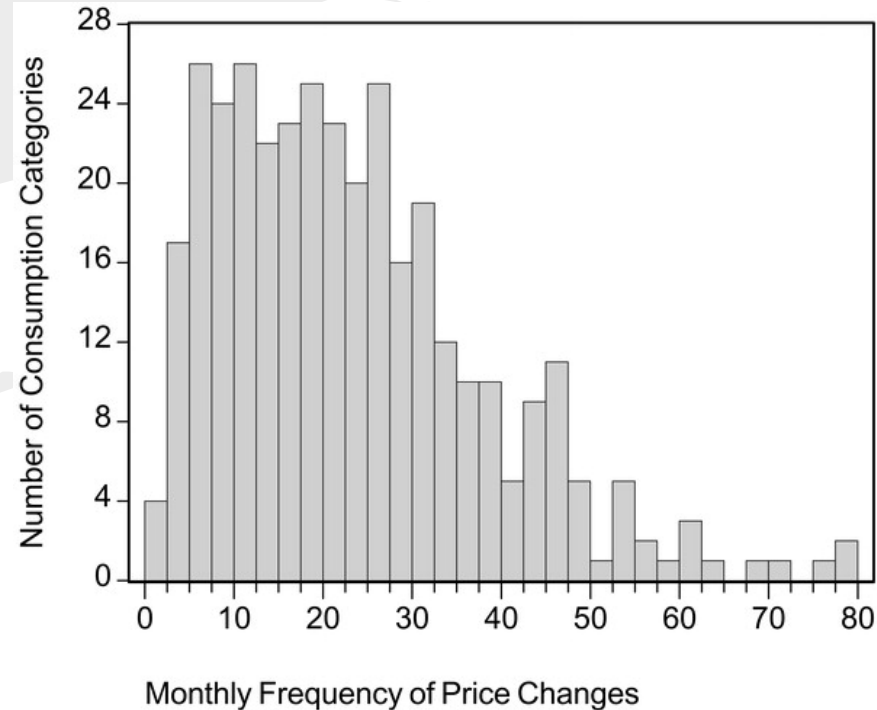
Yearly Frequency of Price Changes

TABLE 1
MONTHLY FREQUENCY OF PRICE CHANGES BY YEAR,
1995–2002

Year	Median Frequency (%)	Median Duration (Months)
1995	21.3	4.2
1996	20.8	4.3
1997	19.9	4.5
1998	21.2	4.2
1999	21.4	4.1
2000	21.7	4.1
2001–2	22.0	4.0

SOURCE.—U.S. Department of Labor, Commodities and Services Substitution Rate Table, various years.

NOTE.—2001–2 refers to the 15-month period from January 2001 through March 2002.



Raw goods are much more susceptible to price changes

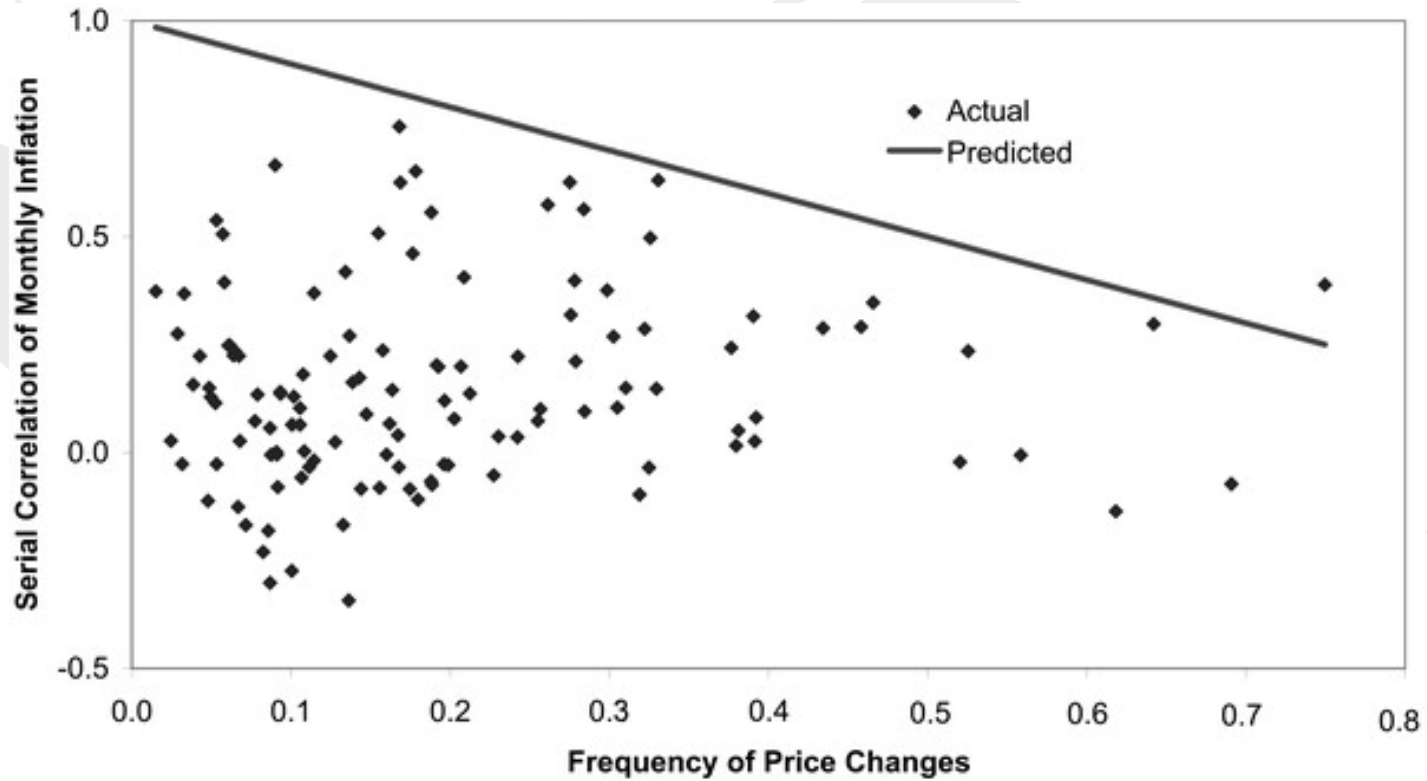


Tomatoes & Gasoline

Actual Inflation Compared with Inflation in the Calvo and Taylor Models

- Calvo & Taylor models predict high persistence and low volatility of a good's inflation rate

Predicted vs. Actual Inflation



New Keynesian say, "what"?

